

REPORT OF EXAMINATION

OF

**ALFA MUTUAL GENERAL INSURANCE
COMPANY**

MONTGOMERY, ALABAMA

**as of
December 31, 2016**

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EXAMINER'S AFFIDAVIT

STATE OF ALABAMA COUNTY OF MONTGOMERY

Rhonda B. Ball, CFE, being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of Alfa Mutual General Insurance Company.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of Alfa Mutual General Insurance Company was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.



Rhonda B. Ball
Examiner-in-Charge

Subscribed and sworn before me by Rhonda B. Ball on this 2nd day of March 2018.

(SEAL)



(Signature of Notary Public)

My commission expires 7/1/2020



KAY IVEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

STATE OF ALABAMA
Department of Insurance
201 Monroe Street, Suite 502
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DEPUTY COMMISSIONER
CHARLES M. ANGELL
CHIEF OF STAFF
MARK FOWLER
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
SCOTT F. PILGREEN
GENERAL COUNSEL
REYN NORMAN

March 2, 2018

Jim L. Ridling, Commissioner
State of Alabama
Department of Insurance
201 Monroe Street, Suite 502
Montgomery, Alabama 36104

Dear Commissioner Ridling:

Pursuant to your authorization and in compliance with the statutory requirements of the State of Alabama and resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

**Alfa Mutual General Insurance Company
Montgomery, Alabama**

at its home office at 2108 East South Boulevard, Montgomery, Alabama 36116, as of December 31, 2016. The report of examination is submitted herewith.

Where the description "Company" or "AMGIC" appears herein, without qualification, it will be understood to indicate Alfa Mutual General Insurance Company.

SCOPE OF EXAMINATION

We have performed our multi-state examination of Alfa Mutual General Insurance Company (AMGIC). The last examination covered the period of January 1, 2007 through December 31, 2011. This examination covers the period of January 1, 2012 through December 31, 2016.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. The examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

The examination was conducted as a coordinated examination with the following affiliated companies: Alfa Mutual Insurance Company (AMIC) of Alabama, Alfa Mutual Fire Insurance Company (AMFIC) of Alabama, Alfa General Insurance Corporation (AGIC) of Alabama, Alfa Insurance Corporation (AIC) of Alabama, Alfa Life Insurance Corporation (ALIC) of Alabama, Alfa Specialty Insurance Corporation (ASIC) of Virginia, Alfa Vision Insurance Corporation (AVIC) of Virginia and Alfa Alliance Insurance Corporation (AAIC) of Virginia. These companies were coordinated with the Company's five-year examination with Alabama being the lead state. During planning, examiners from Alabama and Virginia interviewed the members of management and reviewed lines of business and systems utilized to determine what areas would be coordinated. The key activities to be coordinated fully with the two states were Capital and Surplus, Investments, Related Party, Reinsurance Assuming and Reinsurance Ceding. The other key activities determined to be examined were Reserves/Claims Handling and Underwriting/Premiums. In addition, the AMGIC examination covered those issues identified during the planning deemed immaterial to the coordinated examination but were material to the AMGIC examination. Where deemed appropriate, transactions, activities and similar items subsequent to 2016 were reviewed.

The examination was conducted in accordance with applicable statutory requirements of the *Code of Alabama 1975*, as amended, the Alabama Insurance Department regulations, bulletins and directives and in accordance with the procedures and guidelines promulgated by the NAIC, as deemed appropriate, and in accordance with generally accepted examination standards and practices. All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment was identified, the impact of such adjustment was documented separately following the Company's financial statements.

The Company's 2012 through 2016 annual statements were compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information systems (IS) was conducted concurrently with the financial examinations of all the companies. All the Alabama property and casualty companies utilize the same systems, except ALIC, AVIC, AAIC and ASIC, which have their own business operations for policyholders and claims. The IS examination included a review of management and organizational controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls for all companies in the coordinated examination.

Alabama performed a market conduct examination concurrently with the financial examination. The examination included reviews of the Company's territory, plan of operation, claims, policyholder complaints, marketing and sales, producers' licensing, policy forms and underwriting, and privacy standards. See "MARKET CONDUCT ACTIVITIES" on page 13 for further discussion of the Company's market conduct examination.

The Company maintains an Audit Services (AudSvc) Department, which is charged with performing the internal audit function for all companies. The AudSvc Department is subject to oversight by the Audit Committee which is comprised of all outside directors. Reports generated by the AudSvc Department were made available to the examiners and were used in the examination as deemed appropriate. Risk Management and Compliance works with each business unit to document the process workflow, evaluate risks to the process, identify controls to mitigate those risks, and periodically test the effectiveness of those controls as required by the NAIC Model Audit Rule. The examiners reviewed the controls and procedures tested and requested the workpapers for specific ones, which had been identified as significant to the key activities being examined. The workpapers were provided, were retested and were utilized where deemed appropriate.

PricewaterhouseCoopers, LLP was the Company's certified public accountant (PwC) for all years under examination. PwC's workpapers were reviewed and were used in the examination as deemed appropriate by the examiners.

A signed certificate of representation for AMGIC was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2016.

This examination report includes significant findings of fact, as mentioned in the *Code of Alabama 1975*, as amended, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

ORGANIZATION AND HISTORY

The Company was incorporated August 23, 1955, under the name, Federated Guaranty Mutual Insurance Company, Inc. It was organized as a mutual insurance company by the Alabama Farm Bureau Federation (AFBF), to provide property and casualty insurance to the members of the AFBF.

On January 4, 1983, the holding company, now named Alfa Corporation (AC), was incorporated in Delaware under the name, Federated Guaranty Corporation.

Effective May 1, 1987, AFBF withdrew as a franchise member from the national Farm Bureau Federation and changed its name to Alabama Farmers Federation. The name of the Company was changed to Alfa Mutual General Insurance Company (AMGIC).

During the interim from the Company's organization through 1987, the Company became affiliated with four other property and casualty insurers. They were AMIC, AMFIC, AGIC and AIC. In 1987, an intercompany pooling agreement was formed between these five affiliates. The terms of the agreement provided that the affiliates cede all their direct business, reinsurance assumed business and reinsurance ceded business to AMIC. The pooled business was then retroceded according to percentages provided in the pooling agreement. In 1989, an intercompany pooling committee, representing the boards of directors of the reinsurance pool participants, was established to review and approve any changes to the pooling agreement. In 2001, ASIC became a participant in the reinsurance pooling agreement. In 2005, AVIC became a participant in the agreement, and in 2007, AAIC became a participant. Effective April 16, 2008, the pooling agreement was amended to change the pool participation percentages.

AC, a Securities and Exchange Commission (SEC) registrant, was affiliated with AMIC, AMFIC and AMGIC (collectively the Mutual Group). The Mutual Group owned 54.8% of AC's common stock, their largest single investment. On April 15, 2008, the Mutual Group completed a merger transaction in which they acquired AC's common shares not previously owned by them. Each of these shares was cancelled and converted into the right to receive \$22 in cash, without interest. As a result of the merger, AC became a wholly-owned subsidiary of AMIC (65%) and AMFIC (35%). Also as a result of the merger, AC's

common stock ceased to trade on the NASDAQ Global Select Market as of the close of trading on April 15, 2008, and the registration of AC's common stock under the Securities Exchange Act of 1934, as amended, was terminated.

MANAGEMENT AND CONTROL

Policyholders

The Company is a mutual insurance corporation with ownership vested in its policyholders. Alabama customers are required to be members of the Alabama Farmers Federation to purchase insurance from the Company.

Board of Directors

Directors are elected at the annual meeting and serve until their successors are elected and qualified, which is in accordance with the Company's Bylaws. The following directors were serving at December 31, 2016:

Name and Residence

Principal Occupation

James Louis Parnell
Stanton, Alabama

Chairman of the Board, President and
Chief Executive Officer
Alfa Mutual Insurance Company

Rickey Lynn Cornutt
Boaz, Alabama

Farmer

Stephen Leonard Dunn
Evergreen, Alabama

Treasurer
Alfa Mutual Insurance Company

Samuel Keith Gibbs
Atmore, Alabama

Farmer

Brian Paul Glenn
Hillsboro, Alabama

Farmer

Jacob Calhoun Harper
Camden, Alabama

Vice President
Alfa Mutual Insurance Company

Fred Allen Helms
Dothan, Alabama

Farmer

Davis Garrett Henry, Jr.
Hope Hull, Alabama

Farmer

Odell Velpo Hill
Alpine, Alabama

Farmer

George Ray Jeffcoat Gordon, Alabama	Vice President Alfa Mutual Insurance Company
Joseph Edward Lambrecht Wetumpka, Alabama	Farmer
Paul Samuel Looney Athens, Alabama	Farmer
William Joseph Roberts Fayette, Alabama	Farmer
Daniel Sears Robertson, Jr. Uniontown, Alabama	Farmer
Steven Royce Stroud Goshen, Alabama	Farmer
Phillip Winn Thompson Scottsboro, Alabama	Farmer
Ronald Gray Vaughn, II Huntsville, Alabama	Vice President Alfa Mutual Insurance Company
Curtis Dean Wysner Woodland, Alabama	Vice President Alfa Mutual Insurance Company

Committees

The following committees were appointed by the Board of Directors and were serving at December 31, 2016.

Executive Committee

The Executive Committee consisted of the following Directors:

James Louis Parnell, Chairman
Stephen Leonard Dunn
Jacob Calhoun Harper
George Ray Jeffcoat
Ronald Gray Vaughn, II
Curtis Dean Wysner

Audit Committee

The Audit Committee consisted of the following Directors:

Curtis Dean Wysner, Chairman
Stephen Leonard Dunn
Jacob Calhoun Harper

George Ray Jeffcoat
Ronald Gray Vaughn, II

Contributions Committee

The Contributions Committee consisted of the following Directors:

Ronald Gray Vaughn II, Chairman
Stephen Leonard Dunn
Jacob Calhoun Harper
George Ray Jeffcoat
Curtis Dean Wysner

The Contributions Committee of the Board of Directors did not take minutes of the meetings to document and memorialize the business conducted and actions taken during the period under examination pursuant to the requirements of ALA. CODE § 10A-2-16.01(a) (1975), which states: "A corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation."

Officers

The Company's Bylaws provide that its principal officers shall be a Chairman of the Board, President, four Vice Presidents, a Secretary, a Treasurer and any other officers for such terms, authority and duties as may be determined by the Board. Any two or more offices may be held by the same person, except for the offices of President and Secretary. One person may serve as both the Chairman of the Board and President.

The following officers were elected by the Board of Directors and were serving as of December 31, 2016:

<u>Officer</u>	<u>Title</u>
James Louis Parnell	Chairman of the Board, President and Chief Executive Officer
Jacob Calhoun Harper	Vice President
George Ray Jeffcoat	Vice President
Ronald Gray Vaughn, II	Vice President
Curtis Dean Wysner	Vice President
Stephen Leonard Dunn	Treasurer
Angela Long Bradwell	Secretary
Stephen Goddard Rutledge	Assistant Treasurer

The following officers were appointed as of December 31, 2016:

<u>Officer</u>	<u>Title</u>
Angela Long Bradwell	Executive Vice President, General Counsel
Alvin Howard Dees, Jr.	Executive Vice President, Marketing
William Scott Forrest	Executive Vice President, Administration
Stephen Goddard Rutledge [#]	Executive Vice President, Operations
David Eugene Christenberry [*]	Senior Vice President, Marketing – South Alabama
William Thomas Coshatt, Jr. [#]	Senior Vice President, P & C Underwriting
Carol Lynn Golsan [#]	Senior Vice President, Marketing Services
John Delane Hemmings, Jr. [#]	Senior Vice President, Investments
Bryan Daniel Hubbard	Senior Vice President, Claims
Robert Ernest Robison	Senior Vice President, Life Operations and Policy Administration
Michael Wayne Rowell	Senior Vice President, Chief Information Officer
Russell John Sinco ^{**}	Senior Vice President, Chief Financial Officer
John William Timmons	Senior Vice President, Marketing – North Alabama
Susan Renee Adcock	Vice President, Marketing Resources
Elizabeth Vail Chancey [#]	Vice President, P & C Underwriting
Lisa Melton Farmer	Vice President, Risk Management & Compliance
Tammy Renee Hackett	Vice President, Life & Investments Controller
Richard Neal Harrison	Vice President, Payment Strategies and Processing
Kevin Scott Lawrence	Vice President, Document Strategies
Michael Lynn Lovelady	Vice President, Claims
Donald Eugene Manis	Vice President, P & C Actuary
Melinda Shelley Mattison	Vice President, P & C Shared Services
Ernest Robert McCurley ^{**}	Vice President, Enterprise Architecture
Thomas Edward Mesaris, Jr.	Vice President, IT Infrastructure and Operations
Jeffrey Holland Nickles	Vice President, Tax Accounting & Shared Services
Julie Marie Oakes [#]	Vice President, Integrated Marketing
Julie Meadows Parish [#]	Vice President, P & C Controller
Tonya English Robison [#]	Vice President, IT Delivery
Eileen Nix Senn	Vice President, Claims Operations
Rhonda Welch Sikes [#]	Vice President, Corporate Services and Reporting
Douglas Wade Simpson [#]	Vice President, Claims
Vicky Lyn Smith	Vice President, Enterprise Information Management
Craig Miles Venable [#]	Vice President, Audit Services

*Deceased

**Resigned 2017

[#]See Subsequent Events, page 26

Conflict of Interest

The Company has a written policy, "Principles of Business Conduct," for the disclosure of conflicts between the Company's interests and personal interests of its officers and employees. The process is performed on a biennial basis and is monitored by the Risk Management and Compliance Department. There is not a written policy governing the Board of Directors' conflict of interest disclosures; however, Company procedures required the Directors to sign a written conflict of interest statement (statement) on an annual basis. These statements are maintained by the Company's legal department. The statements on file were reviewed and were determined to be complete and current. No material conflicts or exceptions were noted in the statements of the officers, employees or Board of Directors for the period under examination.

CORPORATE RECORDS

The Articles of Incorporation (Articles) and Bylaws, as amended, were inspected and found to provide for the operation of the Company in accordance with usual corporate practices and applicable statutes and regulations. During the period under examination, the Company did not amend the Articles or Bylaws.

Minutes of the Annual Membership meetings, Board of Directors and Board committees from January 1, 2012 to December 31, 2016 were reviewed. The minutes appeared to be complete with regard to recorded actions taken on matters before the respective bodies for deliberation and action. However, it was noted that there were no minutes for the Contributions Committee during the examination period, which is not in compliance with the ALA. CODE § 10A-2-16.01 (1975). See page 7 for further discussion of this matter.

HOLDING COMPANY & AFFILIATE MATTERS

Holding Company

The Company is subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1 (1975). In connection therewith, the Company is registered with the Alabama Department of Insurance (ALDOI) as joint registrant of an Insurance Holding Company System. Appropriate filings required under the Holding Company Act were made from time to time by the Company as joint registrant. A review of the Company's filings during the period under review did not disclose any omissions in them.

Dividends to Stockholders

As the Company is a mutual company, it does not have any stockholders. Therefore, no dividends were paid during the period under examination.

Management and Service Agreements

Management and Operating Agreement

Alfa Mutual Insurance Company (AMIC) has a Management and Operating Agreement, (the M&O Agreement), under which AMIC provides substantially all of the facilities, management, and other operational services for Alfa Mutual Fire Insurance Company (AMFIC), Alfa Mutual General Insurance Company (AMGIC), Alfa Life Insurance Corporation (ALIC), Alfa Insurance Corporation (AIC), Alfa General Insurance Corporation (AGIC), Alfa Specialty Insurance Corporation (ASIC), Alfa Alliance Insurance Corporation (AAIC), Alfa Vision Insurance Corporation (AVIC), Alfa Financial Corporation (AFC), Alfa Corporation (AC), and certain non-insurance subsidiaries and affiliates.

AMIC pays the employees for services rendered and is reimbursed on an allocated percentage basis. Each company may employ personnel in its own name, upon written consent of AMIC. The company will be solely responsible for the employment, supervision, payment and discharge of all such personnel.

Each company will pay and/or reimburse AMIC the percentages of expense incurred by AMIC, based on special expense allocation studies. The expense allocation rates are variable and based upon business activity metrics that differ between companies, depending upon the type of business, marketing and distribution method, location, etc. The companies understand and agree that the metrics may change from time to time, and not every company will have the same metrics applied to its expense allocation. All books of accounts, document and records relating to such expenses will at all times be open to inspection by the company to which the records are applicable.

The term of the M&O Agreement was for five (5) years from January 1, 2010 to December 31, 2015, and automatically renews for additional periods of one year beginning January 1, 2016, unless terminated. AMIC and any company may terminate its participation by giving written notice to all parties not less than thirty days after delivery or mailing. In the event one or more companies terminate its participation, AMIC would reallocate the expense allocations on an equitable basis.

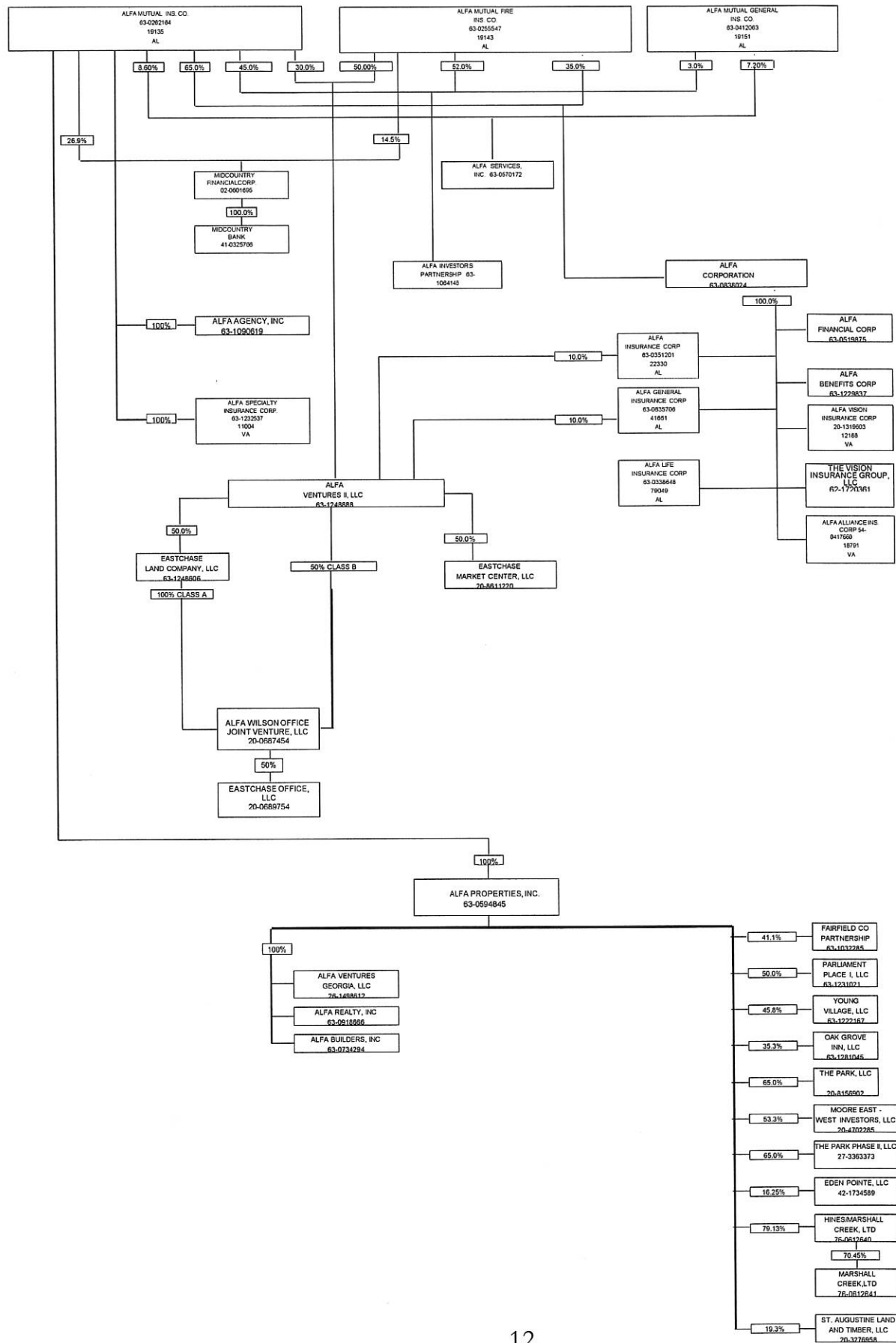
Monthly Billing Service Agreement

Alfa Financial Corporation entered into a Monthly Billing Service Agreement (Agreement) on January 1, 2005 with AMIC, AMGIC, AMFIC, AIC and AGIC (Insurers) whereby AFC grants a perpetual nontransferable license to use its software to process monthly billing payment methods for the Insurers' insureds. The Insurers will pay AFC a non-refundable processing fee on a monthly basis. AFC is obligated to provide the software to the Insurers without further charge or obligation and to provide any and all updates to the software. The

Agreement may be cancelled by any party by giving to the other parties' notice of cancellation in writing thirty days prior to the date cancellation is to become effective.

Organizational Chart

The following chart represents the corporate affiliations of the Company as of December 31, 2016:



PENSION AND STOCK OWNERSHIP

The Company had no employees; therefore, it had no formal employee or agent welfare program. Its operations were conducted by the personnel of AMIC under the terms of the Management and Operating Agreement. See page 10.

SCHEDULE OF SPECIAL DEPOSITS

The Company had the following special deposits at December 31, 2016, as required or permitted by law:

<u>States, etc.</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>
Alabama	\$ 249,556	\$ 260,654
Georgia	<u>34,938</u>	<u>36,492</u>
Total	<u>\$ 284,494</u>	<u>\$ 297,146</u>

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Premiums Earned</u>
2016	\$103,260,316	\$46,146,980	\$57,113,337	\$48,001,031
2015	\$100,872,529	\$43,991,425	\$56,881,104	\$45,208,335
2014	\$ 98,972,004	\$41,083,183	\$57,888,821	\$44,447,131
2013	\$ 94,790,502	\$40,453,951	\$54,336,551	\$42,894,473
2012	\$ 86,822,289	\$38,568,881	\$48,253,408	\$41,789,674

MARKET CONDUCT ACTIVITIES

Plan of Operation

The Company markets its products through captive producers. At December 31, 2016, the Company had 228 service centers in Alabama, with 431 producers appointed to write business on behalf of the Company. The Company wrote the majority of its business in Alabama with a small amount produced in Georgia and Mississippi during the examination period. The Company's direct premiums were for private passenger auto and the homeowner lines of business.

Territory

The Company was licensed to transact property and casualty business in the following states: Alabama, Georgia and Mississippi. The Certificates of Authority from the respective jurisdictions were inspected and found to be in effect at December 31, 2016.

Marketing and Sales

The Company's advertising materials were reviewed for the examination period. The examiners' review did not reveal any advertisements that misrepresented policy benefits, made unfair or incomplete comparisons with other policies, or made false, deceptive or misleading statements or representations.

The Company's website <https://www.alfainsurance.com> was reviewed and was found to include the following links: Auto, Life, Home, and Membership. Also, the site provided links to finding an agent, getting a quote, customer care, reporting a claim and making a payment.

Per Company management, producers are instructed not to create their own material, if they wish to receive co-op reimbursement. Any material created by the producer has to be reviewed by the Vice President of Integrated Marketing, and Legal must review the material and approve or deny the request.

Underwriting and Rating

Rates and Forms

The Company independently filed its rates and forms for its personal lines with the Alabama Department of Insurance (ALDOI). The examination verified that all forms and endorsements used in Alabama during the examination period had been properly filed and approved by the ALDOI. The Company's personal lines rates that were in use were filed with the ALDOI. The Company rates for commercial lines are based on loss costs filed with the ALDOI by the Insurance Services Office.

Underwriting

The examiner selected samples of direct written premium, insured-requested cancelations, Company requested cancelations and rejected/declination applications for insurance during the examination period. No issues were noted during the review.

Producer Licensing

Appointments

The examiner selected a random sample of 120 new Alabama business transactions from a population of 39,832,086 transactions during the examination period. The examiner verified

that the producer, that wrote the business, held a current license and was appointed with the Company prior to writing the business.

Terminations

The examiner selected a sample of 84 producers from a population of 236 Alabama terminated producers. The examiner determined that the ALDOI was not notified of the termination of one producer within thirty days following the effective date of the termination. The Company did not comply with ALA. CODE §27-7-30(e) (1975), which states:

Subject to the producer's contract rights, if any, an insurer or authorized representative of the insurer may terminate a producer's appointment at any time. An insurer or authorized representative of the insurer that terminates the appointment, employment, or contract with a producer for any reason shall within 30 days following the effective date of the termination, using a format prescribed by the commissioner, give notice of the termination to the commissioner.

Claims Payment Practices

The examiners reviewed random samples, as follows, of Alabama claims during the examination period for AMIC, AMFIC and AMGIC:

- 110 paid claims from a population of 1,116,456;
- 108 litigated claims from a population of 2,038; and
- 110 denied or closed-without payment claims from a population of 32,410.

The random samples were selected and were reviewed to make the determination whether the claims were settled in accordance with the policy provisions, applicable statutes and regulations. The review included an assessment of the claim documentation for completeness and accuracy. No issues were noted during this review.

Complaint Handling

During the examination period, there was a total population of 453 complaints in the Company's complaint register from the following states: Alabama, Arkansas, Georgia, Kentucky, and Mississippi. Of the total complaints, 124 were Alabama property and casualty complaints. A sample of 79 Alabama complaints were selected for review. The Company appropriately maintained the following information in its complaint register: line of business, function and reason for the complaint. The Company's responses fully addressed the issues raised.

The Company recorded all complaints, both consumer direct and from the Alabama Department of Insurance. Based on the review of the Company's complaint procedures, it was determined that the Company had a sufficient method for the distribution of and obtaining and recording responses to complaints. The Company's telephone number and address were provided to the policyholders for consumer inquiries and/or complaints.

Privacy

The Company's Privacy Notice disclosed the types of information collected, the way the information is used, the manner in which information is collected and how the information is protected. The Privacy Notice also specifically stated the customers' rights, and the Company does not disclose any information to any nonaffiliated third parties unless permitted to do so by law. It was determined the Company's policies, practices and procedures regarding the protection and disclosure of non-public personal information of consumers and former customers were in compliance with ALA. ADMIN. CODE 482-1-122 (2001).

REINSURANCE

Intercompany Pooling Agreement

The amended and restated intercompany pooling agreement, effective January 1, 2009, is between Alfa Mutual Insurance Company ("AMIC" or the "Company") and the following entities (hereinafter referred to as the "Associates"):

- Alfa Mutual Fire Insurance Company (AMFIC)
- Alfa Mutual General Insurance Company (AMGIC)
- Alfa Insurance Corporation (AIC)
- Alfa General Insurance Corporation (AGIC)
- Alfa Specialty Insurance Corporation (ASIC)
- Alfa Vision Insurance Corporation (AVIC)
- Alfa Alliance Insurance Corporation (AAIC)

The purpose of this Pooling Agreement is to increase the solvency protection for policyholders and shareholders by increasing available surplus to draw on in the event of a large catastrophe; to increase geographic diversification; to increase access to external capital markets; and to spread and stabilize the writings of each participating company by sharing underwriting operations.

Under this pooling agreement, all Associates cede 100% of its books of business (premiums) and net liabilities to the Company. In turn, the Company cedes to each Associate its proportionate share of premiums on AMIC's book of business and its proportionate share

of the net liability on all insurance written by AMIC, including the net liability of business assumed.

The following pooling percentages were in effect at December 31, 2016:

	Pool 4	Pool 5	Pool 6	Pool 7
Name of Insurer	Loss Dates 1/1/01- 12/13/04	Loss Dates 1/1/05-12/31/06	Loss Dates 1/1/07-12/31/07	Loss Dates 1/1/08- current
AMIC (Lead Company)	18%	18%	18%	52%
AMFIC	13%	13%	13%	30%
AMGIC	3%	3%	3%	4%
AIC	32.5%	30%	29%	3%
AGIC	32.5%	30%	29%	4%
ASIC	1%	1%	1%	2%
AVIC	0%	5%	5%	4%
AAIC	0%	0%	2%	1%

All net premiums, losses and expenses on all insurance written by the Company and assumed under this agreement are prorated between the Associates based on each participant's proportionate share specified in the agreement. Each Associate retains and is liable for outstanding net losses (including IBNR liability), for outstanding net expenses, and salvage and subrogation related to losses incurred.

Reinsurance Assumed

Other than the intercompany pooling listed above, the Company had no additional reinsurance assumed at December 31, 2016.

According to the Company's Schedule F- Part 1, the total assumed premium as of December 31, 2016 from Intercompany Pooling was \$49,175,000.

Reinsurance Ceded

Intercompany Traditional Excess Catastrophe Reinsurance Contract

This intercompany contract is effective June 1, 2016 between AGIC, AIC, AMIC, AMGIC and AMFIC, ("Alfa P&C Group" or the "Reinsured") and AMFIC ("Reinsurer").

This reinsurance agreement has an allocation component that mirrors the terms of external catastrophe reinsurance contracts issued to AMFIC (traditional, multi-year, reinstatement premium protection). AMFIC secures outside reinsurance for the pool, and then executes an internal reinsurance agreement that mirrors the outside reinsurance agreement. AMFIC

acts essentially as a pass through entity. The purpose of this agreement is to fairly divide the costs of reinsurance among the participants in the intercompany pooling arrangement. This contract defines participation percentages between AGIC, AIC, AMIC, AMGIC and AMFIC. Under this agreement, the ceding companies retain and are liable for the first amount of ultimate net loss for each excess layer. Premiums are allocated to each Alfa business unit based on premium exposure. The following schedule defines the participation rates by company, limits, and retention:

	Traditional Excess Catastrophe June 1, 2016				Traditional Multi-Year Excess Catastrophe June 1, 2016	
	Underlying Excess	First Excess	Second Excess	Third Excess	First Excess	Second Excess
Company's Retention	\$75,000,000	\$100,000,000	\$200,000,000	\$550,000,000	\$100,000,000	\$200,000,000
Intercompany Placement %	100%	100%	100%	100%	100%	100%
Participation Rate						
AMIC	81.60%	81.60%	81.60%	81.60%	81.60%	81.60%
AMGIC	5.07%	5.07%	5.07%	5.07%	5.07%	5.07%
AMFIC	2.87%	2.87%	2.87%	2.87%	2.87%	2.87%
AIC	7.45%	7.45%	7.45%	7.45%	7.45%	7.45%
AGIC	1.66%	1.66%	1.66%	1.66%	1.66%	1.66%
Reinsurer's Per Occurrence Limit	\$25,000,000	\$100,000,000	\$400,000,000	\$50,000,000	\$100,000,000	\$400,000,000
Reinsurer's Term Limit	\$50,000,000	\$200,000,000	\$800,000,000	\$100,000,000	\$200,000,000	\$800,000,000

The outside reinsurance agreement that is mirrored by this internal agreement reinsures the participating companies for catastrophe losses exceeding the first retention level of \$75 million. Losses below the retention level are shared on a percentage basis by Alfa's Intercompany Pooling Arrangement. All business is ceded to Alfa Mutual Insurance Company, and then retroceded according to the participation percentages. There is also an *Intercompany Reinsurance Premium Protection Reinsurance Contract (RPP)* that is associated as part of this reinsurance agreement immediately following.

Intercompany Reinstatement Premium Protection Reinsurance Contract (RPP)

This contract is effective June 1, 2016, between AMFIC as the reinsurer ("Reinsurer") and AGIC, AIC, AMIC, AMGIC and AMFIC as ceding companies (the "Companies").

By this Contract, the Reinsurer agrees to indemnify the Companies for 100% of any reinstatement premium which the Companies pay or becomes liable to pay as a result of losses arising out of loss occurrences commencing during the term of this Contract (under certain provisions of the third party contracts between AMFIC and subscribing reinsurers). This Contract follows the terms, conditions, exclusions, definitions, warranties and settlements of the Companies under the third party Original Contracts.

This following schedule defines the participation rates by company limits and retention:

	Traditional Excess Catastrophe Reinsurance Contract June 1, 2016	Multi-Year Traditional Excess Catastrophe Reinsurance Contract June 1, 2016	Multi-Year Traditional Excess Catastrophe Reinsurance Contract June 1, 2015
	First Excess	First Excess	First Excess
Original Contract Retention	\$100,000,000	\$100,000,000	\$100,000,000
Original Contract Reinsurer's Per Occurrence Limit	\$100,000,000	\$100,000,000	\$100,000,000
Reinsurer's Term Limit	\$200,000,000	\$200,000,000	\$200,000,000

Liability Excess of Loss Reinsurance Agreement

This agreement is effective April 1, 2016 between AMIC, AMFIC, AMGIC, AGIC and AIC as ceding companies (the "Reinsured") and American Agricultural Insurance Company as reinsurer ("American").

American agrees to reimburse the Reinsured, on an excess of loss basis for its share of the amount of Ultimate Net Loss that the Reinsured has paid as a result of any one loss.

Maximum Policy Limits:

- Per Occurrence BI/PD: \$1,500,000
- Minimum Premium: \$75,000

Property per Risk and Coded Excess Reinsurance Agreement

This agreement is effective April 1, 2016 between AMIC, AMFIC, AMGIC, AGIC and AIC as ceding companies (the "Reinsured") and American Agricultural Insurance Company as reinsurer ("American").

American agrees to reimburse the Reinsured, on an excess of loss basis for its share of each Loss, to each Risk, as a result of each Occurrence arising under certain classified lines of business.

Limits on Reinsurance Loss:

There are two layers of coverage provided under this Agreement, Layer 1 - Property per Risk and Layer 2 - Coded Excess. As respects each Layer, the Reinsured shall retain the amount of each Loss, to each Risk, as a result of each Occurrence, that does not exceed the Layer Retention. American shall then be liable for the amount of Loss, to each Risk, as a result of each Occurrence, that exceeds the Retention multiplied by the Layer American Share.

	Layer 1 Property per Risk	Layer 2 Coded Excess
Retention	\$ 750,000	\$ 2,500,000
Occurrence Limit	\$3,500,000	\$15,000,000
Layer American Share	50.0%	100.0%
Layer Limit of Liability	\$1,750,000	\$ 7,500,000
Risk Limit	\$2,500,000	\$10,000,000

Umbrella Liability Reinsurance Agreement

This agreement is effective September 1, 2016 between AMIC, AMFIC, AMGIC, AGIC and AIC as ceding companies (the "Reinsured") and American Agricultural Insurance Company as reinsurer ("American").

American agrees to reimburse the Reinsured on a quota share basis for American's Reinsurance Percentage (determined by layer and Class Group) of the amount of Ultimate Net Loss that the Reinsured has paid as a result of any one Loss Event involving any new or renewal Umbrella Policies issued by the Reinsured to a qualified risk.

American's maximum liability, including its aggregate limit under this Agreement, shall correspond to the Reinsurance Percentage of Treaty Capacity for each Policy Limit Layer included under any Class Group. Aggregate limits must be included in all Commercial Umbrella Policies subject to this Agreement.

ACCOUNTS AND RECORDS

The Company utilizes a centralized processing environment for the majority of its daily business requirements. This environment includes mainframe operations, server clusters, as

well as midrange (IBM AS400) computers at AVIC & AAIC. The Company operates a web site that has limited commerce functionality. Overall, the Company has a highly complex Information Technology environment.

FINANCIAL STATEMENT INDEX

The following financial statements are based on the statutory financial statements filed by the Company with the Alabama Department of Insurance and present the financial condition of the Company for the period ending December 31, 2016. The accompanying comments on the financial statement reflect any examination adjustments to the amount reported in the annual statement and should be an integral part of the financial statements.

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Alfa Mutual General Insurance Company
Statement of Assets
For the Year Ended December 31, 2016

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$ 31,836,979	\$ -	\$ 31,836,979
Stocks: Preferred stocks	475,000	-	475,000
Stocks: Common stocks	26,882,064	-	26,882,064
Real estate Properties held for the production of income	224,986	-	224,986
Cash, cash equivalents and short-term investments	26,175,594	-	26,175,594
Other invest assets	905,516	-	905,516
Aggregate write-ins for invested assets	<u>-3</u>	<u>-</u>	<u>-3</u>
Subtotals, cash and invested assets	\$ 86,500,136	\$ -	\$ 86,500,136
Investment income due and accrued	276,377	-	276,377
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	3,649,351	39,134	3,610,217
Deferred premiums, agents' balances and installments booked but deferred and not yet due	8,084,600	445	8,084,155
Reinsurance:			
Amounts recoverable from reinsurers	3,790,617	-	3,790,617
Current federal and foreign income tax recoverable and interest thereon	743,020	-	743,020
Electronic data processing equipment and software	4,234,559	4,234,559	-
Receivables from parent, subsidiaries and affiliates	255,795	-	255,795
Health care and other amounts receivable	722	722	-
Aggregate write-ins for other-than-invested assets	<u>11,890</u>	<u>11890</u>	<u>-</u>
TOTAL	<u>\$ 107,547,067</u>	<u>\$ 4,286,750</u>	<u>\$ 103,260,316</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Alfa Mutual General Insurance Company
Statement of Liabilities, Surplus and Other Funds
For the Year Ended December 31, 2016

Liabilities

Losses	\$ 14,695,683
Reinsurance payable on paid losses and loss adjustment expenses	3,467,964
Loss adjustment expenses	2,939,596
Commissions payable, contingent commissions and other similar charges	225,783
Other expenses	126,608
Taxes, licenses and fees	63,735
Net deferred tax liability	48,817
Unearned premiums	17,715,372
Advance premium	907,890
Ceded reinsurance premiums payable	1,956,460
Amounts withheld or retained by company for account of others	9,706
Remittances and items not allocated	136,139
Drafts outstanding	1,730,426
Payable to parent, subsidiaries and affiliates	2,117,923
Aggregate write-ins for liabilities	<u>4,876</u>
Total Liabilities	\$ 46,146,980

Capital and Surplus:

Aggregate write-ins for special surplus funds	43,907
Unassigned funds (surplus)	<u>57,069,429</u>
Surplus as regards policyholders	<u>57,113,337</u>
TOTAL	<u>\$ 103,260,316</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Alfa Mutual General Insurance Company
Statement of Income
For the Years Ended December 31, 2016, 2015, 2014, 2013 and 2012

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<u>Underwriting Income</u>					
Premiums earned	\$ 48,001,031	\$ 45,208,335	\$ 44,447,131	\$ 42,894,473	\$ 41,789,674
<u>Deductions:</u>					
Losses incurred	31,715,439	29,172,427	28,540,772	26,745,863	26,117,950
Loss adjustment expenses incurred	2,892,778	2,796,623	2,722,510	2,757,389	2,704,943
Other underwriting expenses incurred	15,234,512	14,502,133	14,694,643	13,817,175	12,862,245
Aggregate write-ins for underwriting deductions	<u>-2,501</u>	<u>-5,704</u>	<u>-5,431</u>	<u>-837</u>	<u>-108</u>
Total underwriting deductions	<u>\$ 49,840,228</u>	<u>\$ 46,465,478</u>	<u>\$ 45,952,494</u>	<u>\$ 43,319,589</u>	<u>\$ 41,685,030</u>
Net underwriting gain (loss)	<u>\$ -1,839,197</u>	<u>\$ -1,257,143</u>	<u>\$ -1,505,363</u>	<u>\$ -425,115</u>	<u>\$ 104,644</u>
<u>Investment Income</u>					
Net investment income earned	\$ 1,865,597	\$ 1,837,738	\$ 2,006,724	\$ 1,994,989	\$ 1,741,971
Net realized capital gains (losses)	<u>50,956</u>	<u>3,733,486</u>	<u>2,164,323</u>	<u>1,581,225</u>	<u>602,519</u>
Net investment gain (loss)	<u>\$ 1,916,553</u>	<u>\$ 5,571,225</u>	<u>\$ 4,171,047</u>	<u>\$ 3,576,214</u>	<u>\$ 2,344,490</u>
<u>Other Income</u>					
Net gain (loss) from agents' or premium balances charged off	\$ -290,198	\$ -308,558	\$ -295,629	\$ -214,378	\$ -199,942
Finance and service charges not included in premiums	1,259,469	1,227,439	1,218,087	1,180,210	1,068,521
Aggregate write-ins for miscellaneous income	<u>11,846</u>	<u>-105,067</u>	<u>-156,929</u>	<u>10,241</u>	<u>-1,877</u>
Total other income	<u>\$ 981,117</u>	<u>\$ 813,813</u>	<u>\$ 765,528</u>	<u>\$ 976,072</u>	<u>\$ 866,702</u>
Net income before dividends and all other federal and foreign income taxes	\$ 1,058,473	\$ 5,127,895	\$ 3,431,213	\$ 4,127,172	\$ 3,315,836
Federal and foreign income taxes incurred	<u>-772,888</u>	<u>-633,458</u>	<u>77,728</u>	<u>70,249</u>	<u>73,972</u>
NET INCOME	<u>\$ 1,831,361</u>	<u>\$ 5,761,353</u>	<u>\$ 3,353,485</u>	<u>\$ 4,056,923</u>	<u>\$ 3,241,864</u>
<u>Capital and Surplus Account</u>					
Surplus as regards policyholders, December 31 prior year	\$ 56,881,104	\$ 57,888,821	\$ 54,336,551	\$ 48,253,408	\$ 43,385,464
Net income	1,831,361	5,761,353	3,353,485	4,056,923	3,241,864
Change in net unrealized capital gains or (losses)	1,003,063	-3,324,571	1,214,162	2,688,234	1,337,687
Change in net deferred income tax	-801,750	-1,001,325	-1,010,729	-1,293,958	658,425
Change in nonadmitted assets	-1,800,441	-2,443,174	-4,648	631,944	-370,032
Change in surplus as regards policyholders for the year	<u>\$ 232,233</u>	<u>\$ -1,007,717</u>	<u>\$ 3,552,270</u>	<u>\$ 6,083,143</u>	<u>\$ 4,867,943</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 57,113,337</u>	<u>\$ 56,881,104</u>	<u>\$ 57,888,821</u>	<u>\$ 54,336,551</u>	<u>\$ 48,253,408</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Analysis of Changes to Surplus

No adjustment was made to surplus as a result of the examination.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of contingent liabilities and pending litigation included an inspection of representations made by management to the Company's independent certified public accountants regarding the Company and its affiliates, a review of the report on litigation and claims made by Company's management, and a general review of the Company's records and files conducted during the course of the examination, including a review of claims. These reviews did not disclose any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

The Company has committed to invest \$43,907 in partnerships, which are investments in SCA entities under SSAP No. 97 – *Investments in Subsidiary, Controlled, and Affiliated Entities*, and in joint ventures, partnerships and limited liability companies under SSAP No. 48 – *Joint Ventures, Partnerships and Limited Liabilities Companies*. These funds are reported as special surplus.

SUBSEQUENT EVENTS

A review of events subsequent to the December 31, 2016 examination date was completed. The review of subsequent events included an inspection of the general journal entries, minutes of meetings, interim financial statements and an inquiry of accounting matters. These reviews did not disclose any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

Subsequent to the exam date, the following changes in officers were noted:

Changes in Officers:

- Julie Meadows Parish was appointed Vice President and Chief Accounting Officer.
- John Delane Hemmings was appointed Chief Financial Officer replacing Russell John Sinco.
- Mark Andrew Evans was appointed Senior Vice President – South Alabama Sales.
- Stephen Goddard Rutledge, Executive Vice President of Operations and Treasurer, retired effective February 1, 2018.

- William Thomas Coshatt Jr., former Senior Vice President- P&C Underwriting, has been named as his replacement.
- Elizabeth Vail Chancey, former Vice President- P&C Underwriting, has been named as Mr. Coshatt's replacement.
- Rexton Carl Seabrook, former P&C Underwriting Manager, has been named as Ms. Chancey's replacement.
- Craig Miles Venable was appointed Senior Vice President – Chief Risk, Compliance and Privacy Officer.
- Carol Lynn Golsan, Senior Vice President- Market Services, retired effective February 1, 2018. A replacement has not been named.
- Tonya English Robison, Vice President- IT Delivery, retired effective February 1, 2018. A replacement has not been named.
- Douglas Wade Simpson, Vice President – Claims, retired effective February 1, 2018.
- Julie Marie Oakes' title was changed to Vice President – Strategic Marketing.
- Rhonda Welch Sikes' title was changed to Director – Reporting.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regard to the Company's compliance with the recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with prior examination recommendations except for the following:

Producer Termination Notifications

In the prior examination report, it was recommended that the Company send notification of terminations of its producers within thirty days in compliance with ALA. CODE § 27-7-30(e) (1975), which states:

Subject to the producer's contract rights, if any, an insurer or authorized representative of the insurer may terminate a producer's appointment at any time. An insurer or authorized representative of the insurer that terminates the appointment, employment, or contract with a producer for any reason shall within 30 days following the effective date of the termination, using a format prescribed by the commissioner, give notice of the termination to the commissioner.

IMPORTANT POINTS, COMMENTS AND RECOMMENDATIONS

Contributions Committee – Page 7

It is recommended that the Company keep and maintain as permanent records, minutes of all meetings of the Contributions Committee to document and maintain a record of all actions taken by the committees in place of the board of directors on behalf of the corporation, in compliance with ALA. CODE § 10A-2-16.01(a) (1975), which states: “A corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation.”

Producers Licensing – Page 14

It is recommended that the Company send termination notifications to the Alabama Department of Insurance within 30 days of the date of termination of the producer as required by ALA. CODE § 27-7-30(e) (1975), which states:

Subject to the producer’s contract rights, if any, an insurer or authorized representative of the insurer may terminate a producer’s appointment at any time. An insurer or authorized representative of the insurer that terminates the appointment, employment, or contract with a producer for any reason shall within 30 days following the effective date of the termination, using a format prescribed by the commissioner, give notice of the termination to the commissioner.

CONCLUSION

Acknowledgment is hereby made of the courteous cooperation extended by the officers and employees of the Company during the course of this examination.

The customary insurance examination procedures, as recommended by the NAIC, have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, James Davis, Theo Goodin, MCM, Mark Jaster, CFE, Mary Packard, CPA, CFE, Mora Perkins-Taylor, MCM, Kristina Rhodes, Charles Turner, CISA, Kizzy Williams, Brent Sallay, FCAS, MAAA and Solomon Frazier, ACAS, MAAA, actuarial examiners, all representing the Alabama Department of Insurance participated in certain phases of this examination:

Respectfully submitted,



Rhonda B. Ball, CFE,
Examiner-in-Charge
State of Alabama Department of Insurance